

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-04-3
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ORDER APPROVING STIPULATION AND AGREEMENT

(Issued January 31, 2005)

INTRODUCTION AND PROCEDURAL HISTORY

On December 21, 2004, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an application for determination of ratemaking principles pertaining to a proposed 30 MW to 90 MW expansion (Expansion Project) of its original 310 MW wind-powered generation project. MidAmerican in its initial filing said it planned to expand at one or both of the sites where the 310 MW of wind turbines are currently being constructed. The original 310 MW project was previously the subject of a regulatory principles proceeding. See MidAmerican Energy Company, “Order Approving Stipulation and Agreement,” Docket No. RPU-03-1 (10/17/03).

As part of its application, MidAmerican filed a stipulation and agreement signed by the Consumer Advocate Division of the Department of Justice (Consumer Advocate). The stipulation and agreement asks that the Board approve MidAmerican’s requested ratemaking principles for the Expansion Project. Included in the stipulation and agreement is a one-year extension of the revenue sharing

agreement approved on October 17, 2003, in Docket No. RPU-03-1. MidAmerican commits not to seek any general rate increase in Iowa electric base rates to become effective during 2011, unless its Iowa jurisdictional return on equity for electric operations in 2010 falls below 10 percent.

The Board issued an order docketing the case and setting a procedural schedule on January 4, 2005. Included in the order was a deadline of January 14, 2005, for petitions to intervene. No petitions to intervene were filed. The Board issued an order on January 13, 2005, requiring MidAmerican to file additional information. MidAmerican filed the requested information on January 20, 2005. MidAmerican filed a supplement to its initial filing on January 26, 2005.

The supplement stated that MidAmerican had determined that the scope of the Expansion Project would be approximately 50 MW, with 15 MW to be added at the Interpid site and 35 MW at the Century site. The project is to be completed by the end of 2005, which MidAmerican said is critical because of the December 31, 2005, expiration of the current federal production tax credit. (Crist Supplemental Direct, pp. 1-5).

Ratemaking principles proceedings are conducted pursuant to Iowa Code § 476.53 (2003). Section 476.53 was enacted during the 2001 legislative session as part of House File 577. This section provides that when defined new electric generation is constructed by a rate-regulated public utility, the Board, upon request, shall specify in advance, by order issued after a contested case proceeding, the ratemaking principles that will apply when the costs of the new facility are included in

electric rates. Alternate energy production facilities, such as the Expansion Project proposed by MidAmerican, were added to the list of eligible facilities for ratemaking principles by House File 391, which was enacted during the 2003 legislative session. Section 476.53(1) states that the general assembly's intent in enacting ratemaking principles legislation is to "attract the development of electric power generating and transmission facilities within the state . . ."

MidAmerican filed a motion to cancel the hearing on January 21, 2005. The Board issued an order on January 24, 2005, canceling the evidentiary hearing scheduled for January 31, 2005. In the order, the Board said that after it had completed its review of all the information submitted by MidAmerican, the Board would either reschedule the hearing or proceed to rule on the merits of the stipulation and agreement. After reviewing all the information filed, the Board has determined a hearing is not necessary and will proceed to rule on the merits of the stipulation and agreement in this order.

Although Iowa Code § 476.53(3)"d" allows the ratemaking principles proceeding to be combined with a proceeding for issuance of a generation certificate under Iowa Code chapter 476A, the two proceedings were not combined here. In fact, MidAmerican is not required to obtain a generation certificate for the expansion project because no more than 25 MW of generating capacity will be located on any single collector or "gathering" line. See MidAmerican Energy Company, "Declaratory Order," Docket No. DRU-03-3 (6/6/03).

CONDITIONS PRECEDENT

Before determining the applicable ratemaking principles for the Expansion Project, the Board must make two findings pursuant to Iowa Code § 476.53(3)"c." These are conditions precedent to a determination of ratemaking principles, because if the Board cannot make these findings, the utility cannot receive ratemaking principles. First, the Board must determine that the public utility has in effect a Board-approved energy efficiency plan. Second, the utility must demonstrate that it has considered other sources for long-term supply and that the facility is reasonable when compared to other feasible alternative sources of supply.

MidAmerican has in effect a Board approved energy efficiency plan. MidAmerican witness Stevens provided prefiled testimony regarding MidAmerican's energy efficiency plan. MidAmerican received approval of its current energy efficiency plan on June 23, 2003, in Docket No. EEP-03-1. (Stevens Direct, pp. 23-24).

MidAmerican also demonstrated in the prefiled testimony of witnesses Stevens (pp. 11-15; 18-21) and Crist (pp. 4-5; 19-21) and in Section 6.2 of its application that it had considered other sources for long-term electric supply and that the proposed Expansion Project is reasonable when compared to other feasible alternative sources of supply. The statute does not require that the Expansion Project be the least-cost alternative, but a reasonable alternative, to other sources of supply. The Expansion Project adds flexibility to MidAmerican's generation portfolio,

particularly during off-peak hours, and promotes Governor Vilsack's announced goal of having 1,000 MW of renewable resources in Iowa.

SUMMARY OF STIPULATION AND AGREEMENT

The stipulation and agreement provides for a return on equity of 12.2 percent on the portion of the Expansion Project included in Iowa electric rate base. The stipulation and agreement, as revised in the January 26, 2005, supplemental filing, contains a \$1.258 million per MW installed, down from the \$1.3 million per MW cap in the initial filing. If costs fall within the cap, MidAmerican does not need to establish the prudence or reasonableness of the expenditures. The cost cap is inclusive of associated costs necessary for the reliable integration of the Expansion Project into the MidAmerican delivery system. MidAmerican would be required to establish the prudence and reasonableness of any costs in excess of these amounts. The depreciation life of the wind facilities for ratemaking purposes is 20 years.

In addition to ratemaking principles specifically addressing the Expansion Project, the stipulation and agreement continues the revenue freeze and revenue sharing settlement originally approved in Docket Nos. RPU-01-3 and RPU-01-5 and extended in Docket No. RPU-03-1. MidAmerican commits not to file for a general increase in rates that will be effective prior to December 31, 2011, unless its return on equity falls below 10 percent. Through 2010, the customers' portion of the revenue sharing calculation will continue to be used to offset allowance for funds used during construction (AFUDC) on MidAmerican's new gas, coal, and wind facilities. If AFUDC is covered, the excess will be used to offset depreciation on these facilities.

If depreciation is fully offset, any excess will be returned to ratepayers. After 2010, the customers' portion of the 2011 revenue sharing calculation will be returned to ratepayers.

The Iowa portion of any revenues from the sale of renewable energy credits or carbon dioxide credits will be included in the revenue sharing calculations. The Iowa portion of wholesale sales will also be included in these calculations.

It is important to note that the stipulation and settlement constitute a revenue freeze, not a rate freeze. The settlement does not prohibit revenue neutral changes to minimize or reduce zonal rate disparities between MidAmerican's pricing zones. The Board is considering such changes in an ongoing docket, Docket No. RPU-04-2.

DISCUSSION

No objections to the proposed stipulation and agreement were filed. Subrule 199 IAC 7.2(11) provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest."

The ratemaking principles contained in the settlement generally track principles that have been awarded in other ratemaking principles dockets and are consistent with what was approved for MidAmerican's initial 310 MW wind project. The 12.2 percent return on equity agreed to by the parties is the same as the return approved in Docket No. RPU-03-1 and appears to be within the zone of reasonableness given the risks associated with new generation, the intent of § 476.53, and the fact that this return will prevail for the regulated life of the wind facilities. There has been little change in the utility bond markets since the Board's

decision in Docket No. RPU-03-1. (Additional Information filed January 20, 2005, response to question 6.)

The other ratemaking principles associated specifically with Expansion Project, including the cost cap and depreciation life, also appear reasonable. The stipulation and agreement, however, also contains terms other than ratemaking principles for the proposed Expansion Project and these must be addressed.

The stipulation and agreement add another year to the settlement initially approved in Docket Nos. RPU-01-3 and RPU-01-5 and extended in Docket No. RPU-03-1. The extension under the current stipulation and agreement is until December 31, 2011. This will provide a predictable revenue stream for MidAmerican and provide customers some price predictability, absent revenue-neutral changes in rate design. The revenue stability for MidAmerican should encourage the efficient operation of its revenue-producing assets.

While a revenue freeze can encourage the deferral of maintenance and capital expenditure, MidAmerican has continued to invest during its current revenue freeze and the stipulation and agreement provide a regulatory out if return on equity falls below 10 percent. If MidAmerican effectively maintains its generating and transmission assets and appropriately administers wholesale sales, both MidAmerican and its customers will benefit through the continuation of the revenue sharing mechanism because some of the costs of the capital investments will be paid.

The stipulation and agreement do not prohibit revenue neutral changes in rate design. Article II, 2(b) provides:

MidAmerican commits not to seek any general rate increase in Iowa electric base rates to become effective during 2011, unless its Iowa jurisdictional return on equity on electric operations for calendar year 2010 falls below 10%. This provision shall not be interpreted to prevent the implementation, prior to December 31, 2011, of any electric rate or tariff changes approved by the Board in Docket No. RPU-04-2 and associated dockets.

(emphasis added). The subject of revenue neutral changes to reduce or eliminate MidAmerican's zonal rate disparities is at issue in an ongoing proceeding, Docket No. RPU-04-2.

From MidAmerican's responses to questions 7 through 10 contained in its January 20, 2005, filing, MidAmerican's preliminary analysis indicates that no additional transmission system improvements or upgrades are required to accommodate the wind project expansion. MidAmerican has retained a firm to perform system reliability studies that will be submitted to the Mid-Continent Area Power Pool (MAPP) design review committee for review and approval. MidAmerican in its filing committed to "ensure that the proposed transmission interconnections for the Expansion Project will not degrade the adequacy, reliability, or operating flexibility of the existing transmission system from a regional and local perspective." (Crist Direct Testimony, p. 12).

MidAmerican's complete analysis and further review may show that additional transmission system improvements or upgrades may be required to maintain adequate and reliable service. MidAmerican has included \$1.7 million in its budget

for these additional system improvements or upgrades. (Crist Supplemental Direct, p. 5). The Board is relying upon this commitment in approving the stipulation and agreement, and understands that MidAmerican will be required to comply with the terms and conditions of all current and future transmission authorization given by any entity having authority over interconnection and utilization of the transmission system by the expansion project. MidAmerican will be required to file with the Board copies of all transmission and system impact studies it conducts to comply with MAPP requirements.

While the stipulation and agreement may not decide each issue the way the Board would in a contested hearing, the Board, viewing the stipulation and agreement as a whole, will find it to be reasonable, in the public interest, and not contrary to any law. The stipulation and agreement will facilitate the building of additional renewable energy to help meet the Governor's goal and will further the diversity of Iowa's generation resources.

FINDINGS OF FACT

1. It is reasonable to find that MidAmerican has in effect a Board-approved energy efficiency plan as required under Iowa Code § 476.6(19).
2. It is reasonable to find that MidAmerican considered other long-term sources of electric supply and the wind facilities are reasonable when compared to other feasible alternative sources of supply.
3. The ratemaking principles contained in the stipulation and agreement are reasonable.

4. The stipulation and agreement are reasonable in light of the whole record, consistent with law, and in the public interest.

CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2003).

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The stipulation and agreement filed in Docket No. RPU-04-3 on December 21, 2004, and supplemented on January 26, 2005, are approved.
2. MidAmerican shall file promptly with the Board copies of all transmission and system impact studies it conducts to comply with MAPP requirements.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 31st day of January, 2005.